Phoenix
Insights

Pre-retirement Poverty: Causes & Solutions

April 2024

Introduction

Phoenix Insights have supported the Fabian Society on their new report 'When I'm 64 – a strategy to tackle poverty before state pension age'. This timely research looks at an important, but often overlooked, issue for millions of people in the UK – the increase in rates of poverty in the years leading immediately up to state pension age (SPA).

A rising SPA has created a new and precarious life stage for some people who feel that they are treated as being too old to work but are too young to retire. The triple-lock on the state pension means that many pensioners have been relatively protected from the risk of poverty, but the same is not the case for those a few years younger. The age that people are eligible for the state pension has been rising over recent decades, up from 60 for women, to 66 for both men and women today, with a rise to 67 scheduled from 2026. While a rising SPA has encouraged some to work for longer, many are not receiving enough income through work or other sources, such as social security benefits, to offset the delay of the state pension.

This report draws on the Fabian Society research alongside other sources to set out the scale of the problem of pre-retirement poverty, discuss its causes and propose solutions. Unless otherwise referenced figures in this document are drawn from the Fabian Society report.

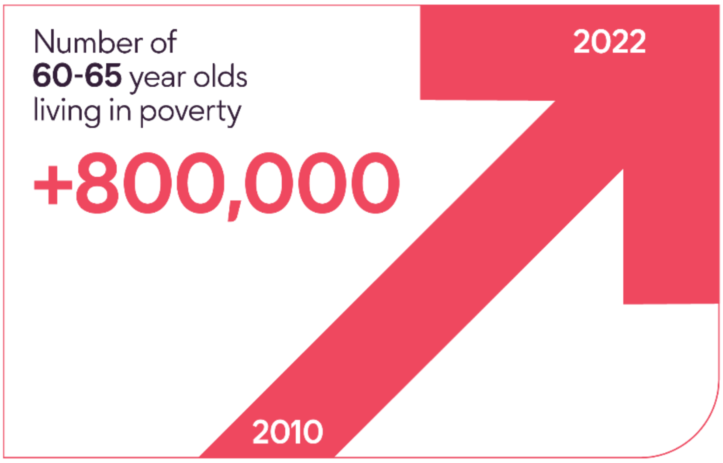
Definitions of poverty

In this report, 'poverty' refers to relative poverty, which has a standard accepted definition in the UK of people with household incomes up to 60% of the current median, after housing costs and adjusted for household size.

1. Scale of the problem

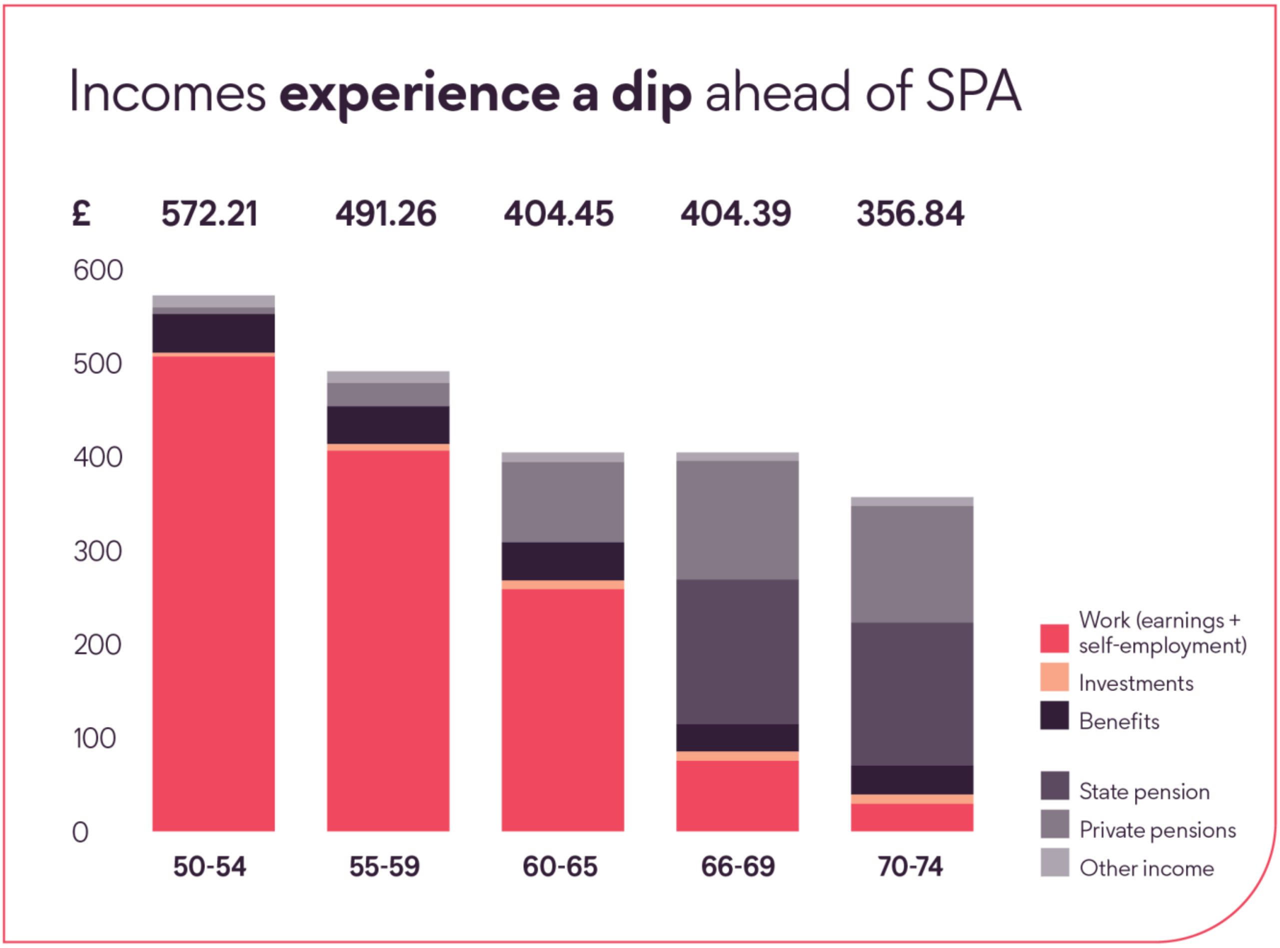
Pre-retirement poverty is a big, new and growing problem

One quarter of all 60-65 year olds live in poverty, and there are 800,000 more in poverty in 2022 than there were in 2010. These numbers are likely to rise, with the number of people aged 60 to SPA projected to increase by 23% between 2024 and 2029, while the rest of the working-age population remains stable.



A pre-SPA income dip pushes many into poverty

Modelling from the Fabian Society shows that average income is 16% lower for people aged 60-65 than for those five years younger.



Average weekly income from different sources and total, by age. Source: Landman Economics / Fabian Society analysis of Family Resources Survey, 2021/22.

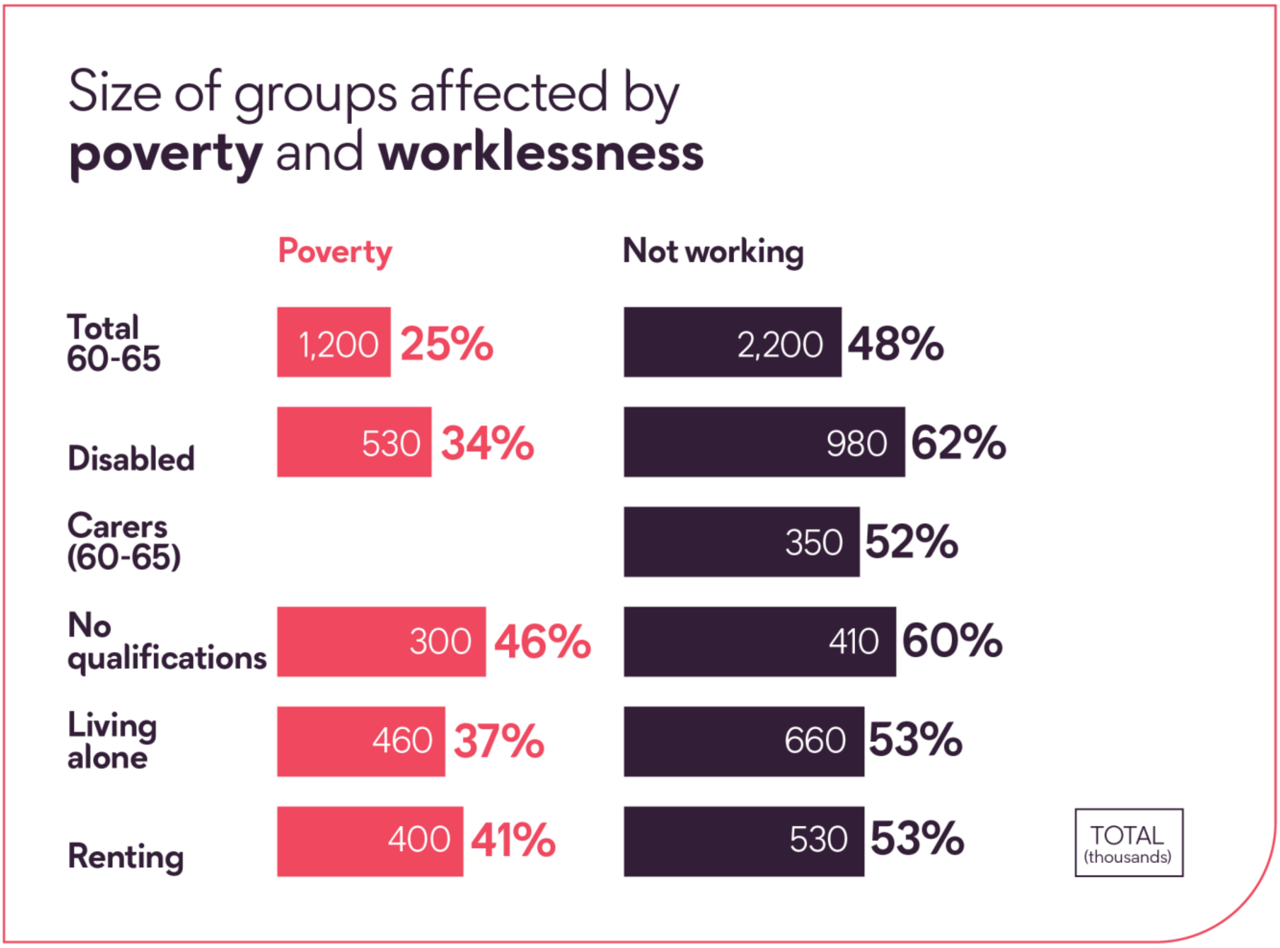
Income inequality is particularly stark in the years immediately before SPA

Pre-retirement is a period of highly polarized wealth and income inequality; between those in good health and those with conditions that limit what they can do; between those in good jobs that meet their needs and those that have been forced out of work or are carrying on in poor quality employment; and between those who have savings and assets such as their own homes and those struggling financially.

More than one third (36%) of people approaching SPA live in households with assets over £1m (36% of 55-64 year-olds). And nearly two thirds (62% of 60-65 year olds own their home without a mortgage, greatly reducing their housing costs. On the other hand, 40% of 60-65 year-olds are in households with less than £3,000 in savings, 21% live in a rented home, and 8% have a gross household income of less than £200 per week

Who is affected?

People in this age group disproportionately experience a range of challenges to their ability to work and their financial security – such as disability, caring responsibilities and low educational attainment – and are increasingly likely to rent and live alone



NB: figures for Carers in poverty are not available

Source: Landman Economics and Fabian Society analysis of Family Resources Survey and DWP Households Below Average Incomes data, 2021/22.

2. What has caused this?

Waiting longer to be eligible for the state pension is a big driver of pre-retirement poverty

Rises to the SPA disproportionately affect those on lowest incomes, who most rely on it and have to wait longer for the security of the state pension. Raising the SPA from 65 to 66 caused absolute income poverty amongst 65-year-olds to more than double, rising by 13 percentage points. The increases in poverty at age 65 were greater for single people, people with fewer educational qualifications, and renters.[1]

Further rises to the SPA already legislated will have a profound impact on the number of people at risk of pre-retirement poverty. The second independent review of state pension in 2023 recommended that the SPA should rise to 68 between 2041 and 2043. This is earlier than is currently legislated for, and will be reviewed again by the next independent review. Our analysis of the Phoenix Insights Longer Lives Index shows that this would potentially affect 3 million people, around 30% of whom are not confident of being able to work until their planned retirement age.[2]

Raising the SPA does not automatically lead to people being able to work for longer

While employment among over-60s did increase along with the SPA in the decades leading up to the pandemic, just 52% of 60-65 year olds were working in 2023, with just 40% of 65 year-olds in work they year before they are eligible for the state pension.

Many people do not intend or feel able to work for longer. Polling from the Fabian Society shows that nine out of ten 50-65 year olds say they will fully retire before their SPA. Of those who plan to retire before SPA, 46% say they have felt unhappy with their job – nearly double the proportion of those who plan to retire at or after SPA (25%). Phoenix Insights research on the Great Retirement shows that the UK stands out compared to international comparators, such as Germany and the USA, with people in this age group having significantly more negative attitudes towards work, with these views having become even more negative post-pandemic.[3]

Many people stop working from their mid-50s for a range of reasons. A combination of private pensions, savings and paid off mortgages reduce financial incentives to keep working until SPA. Good work opportunities are not always available while work-related support is limited. People in work aged 60-65 are less likely than those aged 50-54 to have access to flexible working, reasonable adjustments for health and wellbeing, occupational health services, and education and training. Health inequalities mean disability and caring responsibilities also constrain people's ability to work. Among 60-65 year olds in poverty, 57% say their health plays a factor.

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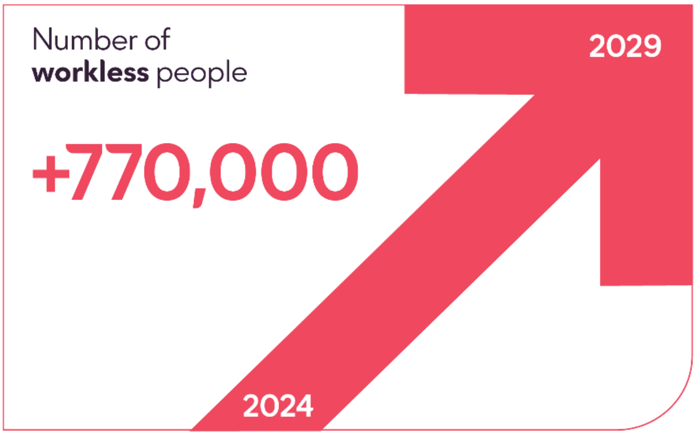
[1] How did increasing the state pension age from 65 to 66 affect household incomes? (IFS, 2022)

[2] Understanding the implications of the state pension age (SPA) review | Phoenix Group (thephoenixgroup.com)

[3] What is driving the Great Retirement? Phoenix Insights, 2023 https://www.thephoenixgroup.com/media/fxsnkbil/phoenix-insights-what-is-driving-the-great-retirement.pdf

Being out of work is a major driver of pre-retirement poverty

People in their early 60s make up a disproportionate part of the total workless population. There are more people aged 60-64 who are economically inactive (1.7m) than the total number of economically inactive 35-49 year-olds (1.6m). This is closely linked to rates of poverty, with 70% of those in poverty aged 60-SPA not working – totalling more than 810,000 people. Those not in work in the years before their SPA are twice as likely to be in poverty as those in work (37% vs 15% of 60-65 year-olds).



Aged 60 to state pension age

These trends could exacerbate. If labour market status for the 60-SPA cohort holds steady, there could be nearly 770,000 more workless people by 2029. This would bring the total 60-SPA to 3 million workless, up from 2.2 million.

For many people, even being in work is no guarantee of being free of poverty. 460,000 people in 60-SPA poverty (40%) are in a household where someone works, and just 5% of 60-65 year olds live in household where everybody is a full-time employee.

People in this age group are not getting the support at work they need

Findings from the Fabian Society research showing that workplaces are not always meeting the needs of people in this age group:

- 13% of 60-65 year olds who experienced health difficulties at work in the past five years have asked for workplace adjustments, compared with 42% of 50-59 year olds. Among those who did not ask, most common reasons were knowledge about availability and worries about employer reactions.
- 59% of 55-64 year olds who asked for reasonable adjustments said their request was not granted in full.
- 23% of 60-65 year olds have participated in education or training in the past year – just under half the share of those five years younger (42%).

- 21% of 55-65 year olds who are struggling financially say they are on an NHS waiting list and it is affecting their ability to work

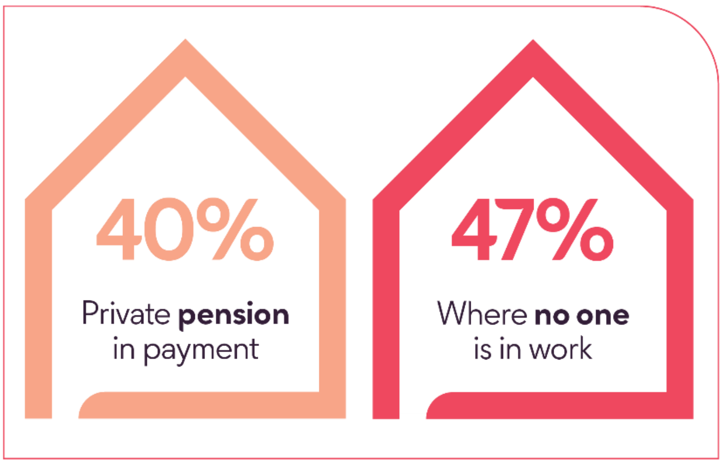
There is a significant gap between working age and pensioner benefits

The state pension acts as a safety net, providing a near universal basic income for those who have reached a certain age. Those who are a few years younger may face many of the same barriers to work but must do more to demonstrate eligibility for lower rates of state support.

Fabian Society research shows that means-tested benefits are being claimed by fewer than half (44%) of those 60-65 year-olds who are almost certain to be eligible. And 58% of 60-65 years olds in households receiving Universal Credit are in poverty, compared with 13% of 66-69 year-olds receiving Pension Credit.

Accessing private pensions before SPA can reduce poverty in the short term, but doesn't fix the problem

Among those aged 60-SPA who are in poverty



Fabian Society research shows that the majority of people begin drawing a private pension before they reach SPA – 55% of 60-65 year-olds and 31% of 55-59 year-olds. Of these, 55% are not working, 23% are working part-time and 17% are working full-time. Of 55-65 year olds claiming their private pension who aren't working or are working part-time, 20% are struggling financially.

Those not working or working part-time while claiming a private pension have sought other means to cover essentials – including reducing how much they spend (33%) and using savings or investments (31%). Those who say they can't work are more likely to resort to these measures (40% and 43%, respectively) and to take on loans, credit cards and bank overdrafts (26%). 470,000 people aged 60-SPA in poverty (40%) are in a household with a private pension in payment. This rises to 47% among households in poverty where no one is in work.

3. What do we do about it?

The significant rise in pre-retirement poverty is stark proof that our employment, benefits and pensions systems are failing too many people on low incomes at this life stage.

These systems are often too binary, with everyone under SPA characterised as being of working age, expected in the main to be able to find and remain in work without support, and everyone over SPA as a pensioner who is entitled to an income replacement benefit with no expectation to continue to work. However, this neat transition from a life of consistent decent work to a life of retirement at the SPA does not represent the reality today. We know that many people below SPA face multiple barriers to work, and many above SPA are able and want to work.

Debates about the relative support offered to pensioners through mechanisms like the triple-lock as compared to people of working age often seem to ignore this emerging experience of pre-retirement poverty. Research from the Institute of Fiscal Studies has shown that the previous increase in SPA from 65 to 66 led to more than a doubling of the poverty rate at age 65, from 10% to 24%[4], and there is reason to estimate that increases in pre-retirement poverty caused by future SPA rises could be even greater. There are likely to be more people who are unable to work at 66 or 67 than is the case at 65, and the gap between working age benefits and pension benefits will likely widen over time without a change in policy direction.

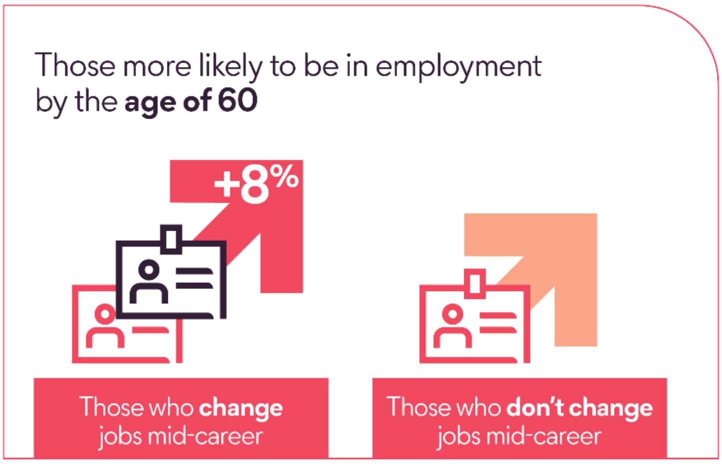
To address this, there are four main areas where action is needed:

1. Improving the quality and sustainability of work
2. Providing targeted and effective employment support and careers advice
3. Address the gap between working age and pensioner benefit systems
4. Ensuring lower earners are supported with private pension saving

[4] How did increasing the state pension age from 65 to 66 affect household incomes? (IFS, 2022)

1. Improving the quality and sustainability of work

Improving access to good work for people in the years before SPA is essential. Landman Economics microsimulation modelling, commissioned by the Fabian Society, shows that raising the employment rate for each single-year age between 56 and 65, to the level experienced by people two years younger, would result in 430,000 more people being in work, including 250,000 aged over 60. This would lift 130,000 people in this 10-year age group out of poverty, including 74,000 aged 60-65. It would also raise an additional £5 billion for the Exchequer.



There is increasingly good evidence for the sorts of changes in work that are needed to make work sustainable and better for more people. They include:

- Supporting working patterns suited to people's needs
- Improving workplace occupational health and safety
- Tackling issues of age-discrimination in the workplace and in recruitment practices
- Supporting employers to value workers of all ages and meet their obligations to them – through the Government Older Worker business Champion and organisations such as ACAS

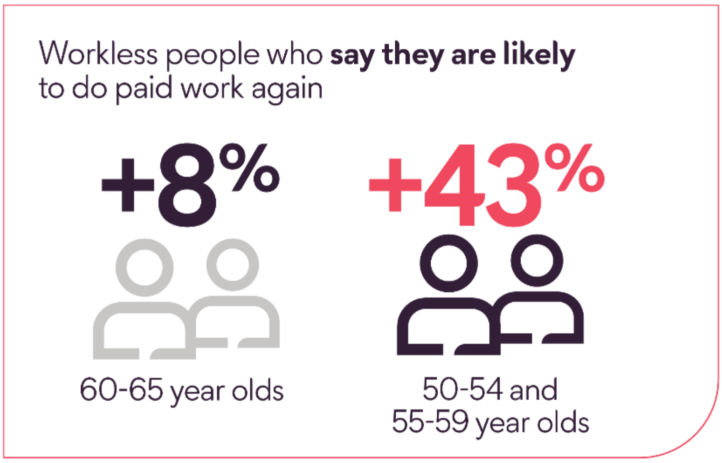
It is welcome that the Centre for Ageing Better's Age-Friendly Employer Pledge – a voluntary movement of employers who are taking positive action to recruit and retain workers in their 50s and 60s – now has over 400 employers signed up. The government should actively endorse and encourage more employers to participate.

2. Providing targeted and effective employment support and careers advice

While the worst impacts of poverty are felt in people's mid-60s the time to intervene begins in the decade before, from people's mid-50s. This is to address problems such as an early unplanned exit from work due to health, caring or unsupportive workplaces, and to help people stay close to the job market.

Workers in their 50s and 60s who have been without work for long durations are much less likely than younger workers in the same position to return – particularly if they have a health condition, provide care, or have few qualifications. The Fabian Society survey supports the case for early intervention, as just 8% of workless 60-65 year olds say they are likely to ever do paid work again, compared with 43% of both 50-54 and 55-59 year olds.

How, and if, people move jobs also matters. Across the OECD those who change jobs in mid-career are 8% more likely to be in employment by the age of 60 than those who don't. Over 50s who change jobs are more likely to experience wage gains and the quality of the working environment can also improve following job and occupational change. However lower skilled workers are more likely to have regrets after changing job, and those who involuntarily move jobs are likely to see declines in their income.[5]



For some time now, successive governments have invested in specific programmes and initiatives to support those looking to remain or return to work over 50, which is welcome. However, these initiatives need to be bolstered and strategically coordinated. Changes needed include:

- Tailored, holistic, locally devolved employment support. Many people aged over 50 face a range of interconnected barriers to work including caring responsibilities, lack of career advice, health conditions, or age discrimination in recruitment processes.
- Expanded availability and promotion of skills and training offers to meet people's needs at all ages and career stages. This can include reforming the Lifelong Learning Entitlement and transforming the Apprenticeship Levy to enable skills and lifelong learning for those who may benefit most.
- Better midcareer advice, support and guidance: Phoenix Insights recently undertook research which showed that an increasing number of people want to change their careers but don't always know how to go about it. [6]

3. Address the gap between working age and pensioner benefit systems

In Phoenix Insights recommendations for the future of the State Pension[7] we have outlined the need to provide a safety net for those who most need it as people approach SPA, and address the gap between working age and pensioner benefits.

One step in achieving this could be a means tested bridging benefit through Universal Credit equivalent to Pension Credit for people at risk of poverty prior to reaching SPA. As outlined in the Fabian Society recommendations

[5] Promoting Better Career Choices for Longer Working Lives (OECD, 2024)

[6] Careers advice for longer lives (Phoenix Insights, 2023)

[7] 'An Intergenerational Contract - policy recommendations for the future of the state pension' (Phoenix Insights, 2023)

relaxing conditionality for some elements of the social security system may be a preferable option for those in poverty and with significant barriers to working as they approach SPA.

4. Ensuring lower earners are supported with private pension saving

While addressing pre-retirement poverty is essential, this should not be achieved by displacing poverty into retirement. Phoenix Insights research shows that there remains a significant under-saving crisis for many groups in the UK who are not on track for the retirement they want or expect[8]. We need to promote personal saving for those who can.

We agree with the need to boost pension savings for all groups who are currently under-saving, particularly low earners. The Fabian Society have called for a move towards minimum auto-enrolment pension contributions worth 12% of total earnings; developing solutions to support automatic pension saving by the self-employed; promoting pensions that go beyond the minimum in low paying sectors; and testing options for automatically increasing pension contributions after 50. In partnership with WPI Economics, we have outlined frameworks for addressing some of these changes particularly around the Automatic Enrolment system in a way that works for all parties.[9]

[8] Great Expectations - the Longer Lives Index (Phoenix Insights, 2022)

[9] Raising the bar: A framework for increasing auto-enrolment contributions (Phoenix Group/WPI Economics, 2023)

4. Conclusion: the costs and benefits of system reform

We believe that we need a systemic change in the way we think about work and social security in the years before and after state pension age. In particular, having a more flexible and sustainable approach to work in the years leading up to retirement could help many people to extend their working life in ways that achieve better outcomes for them as individuals and for the wider economy.

Phoenix Insights have previously called for a reinvestment of an equivalent of 20% of savings made to the Exchequer any time that the state pension age rises.[10] This should be targeted through direct support or public spending to:

- Support opportunities for better, longer and healthier working lives for all ages.
- Mitigate impacts on those most imminently impacted by the transition to a higher state pension age, or most disadvantaged by the current system.
- Support those facing the greatest barriers to work in the years leading up to state pension age, whether that is for health reasons, redundancy or caring responsibilities.

If this mirrored the savings made the last time that the state pension age was raised (from 65 to 66) this would equate to £1 billion available for investment, and still provide 80% savings to the Exchequer. These activities (particularly the support for workers in midlife on) would potentially provide further fiscal net benefit through higher tax income and lower benefit payments associated with better and more sustainable work in people's 50s and 60s. This could enable many of the recommendations outlined in the Fabian Society report. Core to this could be a £300m Sustainable Work Fund to boost opportunities for better, healthier and more sustainable working lives for all ages, through lifelong learning, workplace health and career support.

We need to recognise that the decade prior to a rising state pension age can be precarious and challenging time for workers on low incomes or in poor quality work. We need to invest in better workplaces, employment support, and changes to the benefits system that could help workers in their late fifties and sixties stay in the labour market and be protected from poverty. It is not reasonable, rational or fair to continue to increase the state pension age without this.

[10] 'An Intergenerational Contract - policy recommendations for the future of the state pension' (Phoenix Insights, 2023)